IR magazine

Best Practice Report

How to add ESG talking points to your earnings call

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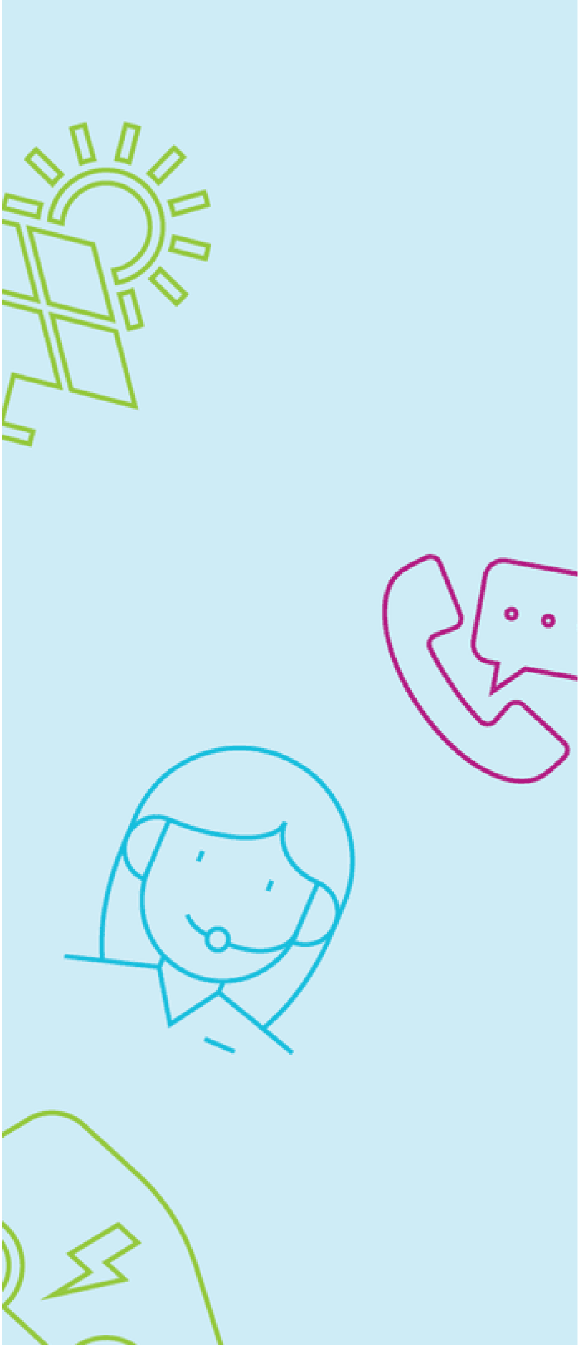
Introduction

Telling your ESG story is essential
in the post-pandemic world



Introduction

Telling your ESG story is essential in the post-pandemic world

On February 6, 2018, something interesting happened during a first quarter earnings call held by Becton Dickinson and Company (BD), a US medical technology firm.

Though the update proceeded much as might have been expected – with a run-down of the company's long-term strategy, highlights from the quarter and a discussion of its financial performance and outlook – CEO Vincent Forlenza surprised some listeners in his closing remarks.

He introduced a new slide that provided a brief update on the firm's four-pronged sustainability approach that centered on innovation, access, efficiency and empowerment.

Though small, this move was nonetheless an important first step in permanently changing the tone of BD's earnings cycle, placing a new focus on long-term impacts.

'While we have always been focused on ESG and creating shared value, we have received feedback from the investor community about its increasing relevance to investment decisions,' said Forlenza.

Today, that relevance has grown. ESG strategy is now a crucial component of corporate and investor communications, and increasingly a formative part of the quarterly earnings cycle.

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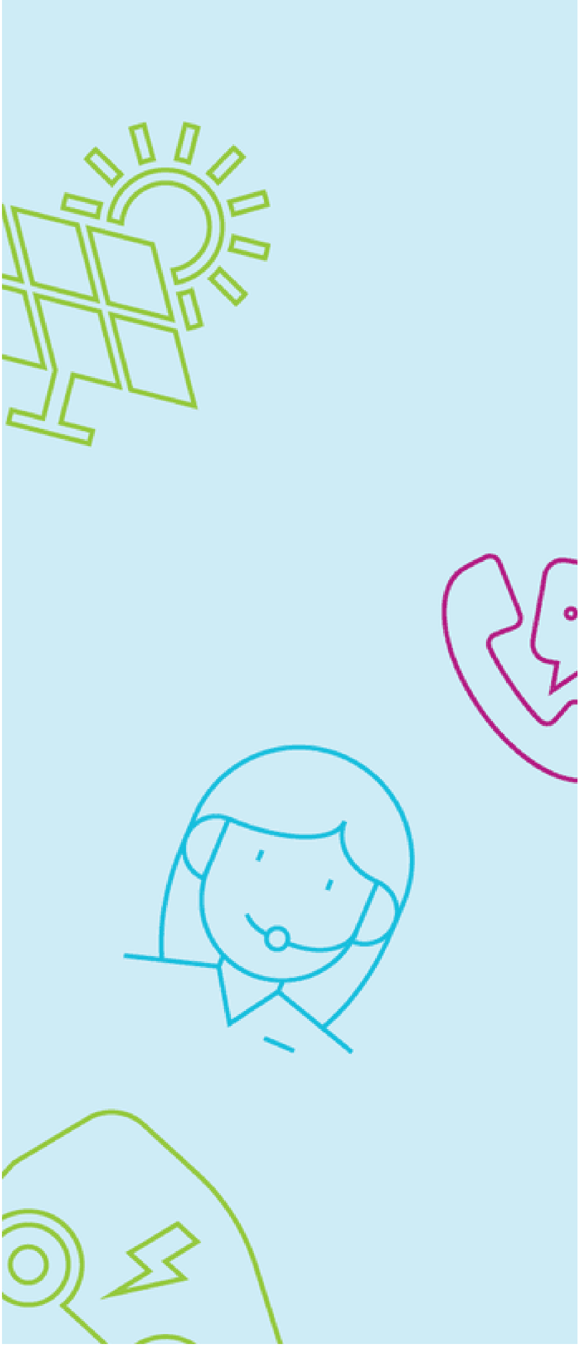


A recent Goldman Sachs report finds that not only are firms increasingly discussing ESG in earnings calls, but also that the CEO is increasingly the focal point of these discussions, providing a strategic thrust that speaks to a corporate's wider strategy. Analysis by FactSet of the S&P 500's earnings calls from June 15 to September 5, 2021 shows that there was a record high in the number of firms mentioning ESG – up to 150 companies.

Not only that, but companies that mention ESG factors in earnings calls are also performing better. Goldman Sachs' analysis of earnings transcripts from the past five years among companies in the S&P 500, the STOXX Europe 600 and the ASX 200 finds that those mentioning particular ESG keywords 'displayed better ESG performance, momentum and target settings versus peers with no ESG commentary in earnings calls'.

But simply adding a slide on ESG at the end of a presentation will not cut it anymore in a post-pandemic world where ESG topics address wider questions regarding corporate purpose. Generic, box-ticking approaches will not hold any sway with the market; instead, showing you are considering ESG as a core risk or driver of value is crucial to gaining the trust of your investment community.

This best practice report will examine the evolving practice of including ESG talking points on your earnings call, including tips for companies at any stage of developing their ESG practice, and an exploration of tying these processes into your wider annual IR program.

Advertisement feature

Making your efforts known

Why companies need to showcase their activity in the ESG space

Making your efforts known

Why companies need to showcase their activity in the ESG space

Today's equity markets have undergone a massive shift that has made the relationship between companies, their investors and their ecosystem of stakeholders more important than ever before. Among the factors driving this change is the increasing interest among investors and consumers in companies that prioritize ESG initiatives – and the resulting shift in how these audiences expect to communicate with both public and private companies.

In fact, a recent survey from ICR, a strategic communications consultancy, finds that more than 60 percent of professional investors believe a company's ESG performance impacts investment decisions. The same study also reveals that beyond traditional media, more than half (54 percent) of professional investors and communications professionals feel social media has a material impact on investment decisions, ranking Twitter (64 percent) and LinkedIn (59 percent) as the most effective social media channels to communicate with investors.

When it comes to ESG efforts, including benchmarking and reporting, one thing is clear: business leaders can't afford to stay silent and must meet investors on their preferred channels. ESG communications have emerged as a critical priority, especially as the US and Europe advance proposed regulations that may require sustainability disclosures for publicly traded companies. Both public and private companies, regardless of where they are in their ongoing ESG journey, must develop a strategy for clearly and transparently communicating their efforts to stakeholders.

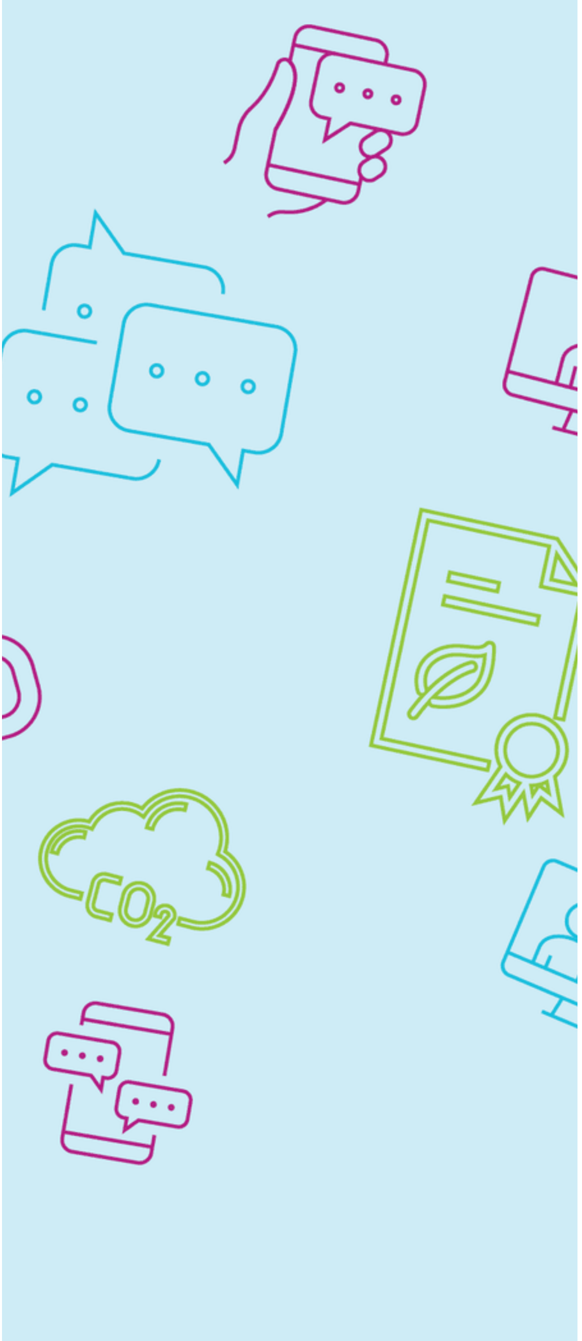
This all starts with the IR website, which is the frontline for all investors to access critical financial information. IR teams must think about how they can use the IR website to tell their ESG story in a prominent and easy-to-access manner. The proliferation of corporate governance sections on IR websites has increased in recent years, giving greater visibility to companies' proxy statements, board of directors and annual meeting schedules. The most progressive companies are going one step further by adding dedicated sections for ESG-related information – this includes the use of video to humanize the story and showcase the passion of the executive team.

In this Notified-sponsored best practice guide, you'll find tools to help you deliver on ESG messaging, across all audiences, from assessing your 'ESG life stage' to incorporating talking points during earnings calls and monitoring and responding to conversations among stakeholders on social channels.

The key takeaway? Your ESG communications strategy is more important than ever before – and IR professionals must lead the way in making sure efforts are communicated consistently and transparently, meeting stakeholders on their preferred channels.

Why bring ESG into your earnings call?

Deeper ESG disclosure is expected by investors and regulators



Why bring ESG into your earnings call?

Deeper ESG disclosure is expected by investors and regulators

Today, ESG topics are not just a ‘nice to have’ element of corporate disclosure – they are a crucial part of telling the corporate story. Each organization’s ESG story is its own to tell, and the metrics, KPIs or strategies that suit one issuer may not suit another.

The definition of what are considered to be important ESG topics has also moved beyond just climate, board diversity and governance. A recent Nasdaq analysis of earnings transcripts from the companies that make up the MSCI USA ESG Leaders and the Russell 3000 indicates that human capital management, supply-chain management and corporate culture now constitute three of the five most-discussed themes.

But while approaches may differ, promoting and amplifying that message is uniformly important across the board. The results of amplifying that story speak for themselves. A 2021 survey carried out by Investopedia and sustainability website Treehugger found that 67 percent of investors said they would buy more shares in companies that have an ESG focus. The same poll found that a majority of millennials – around 64 percent – believe ‘ESG principles will be standard in the future’.

Another factor at play is that market regulators are widely considering which aspects of ESG disclosure should be made a contingent part of being publicly listed. Though in the US there are currently no mandatory ESG disclosures at a federal level, the SEC

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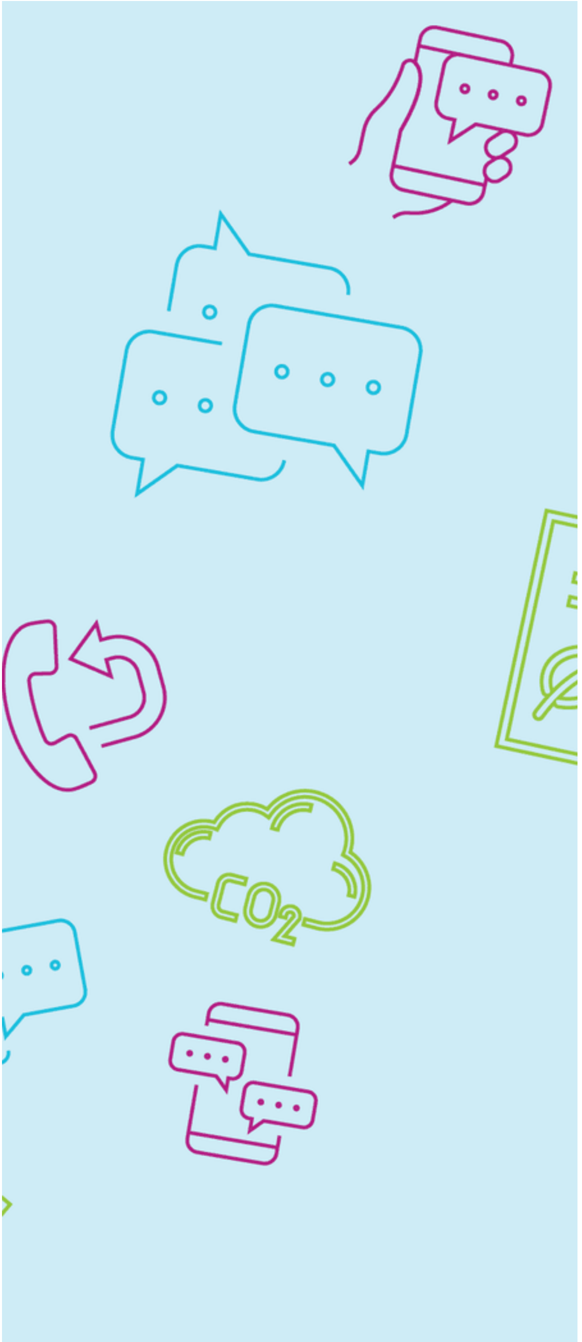


does require public firms to disclose any information that may be material to investors, which undoubtedly includes ESG-related risks.

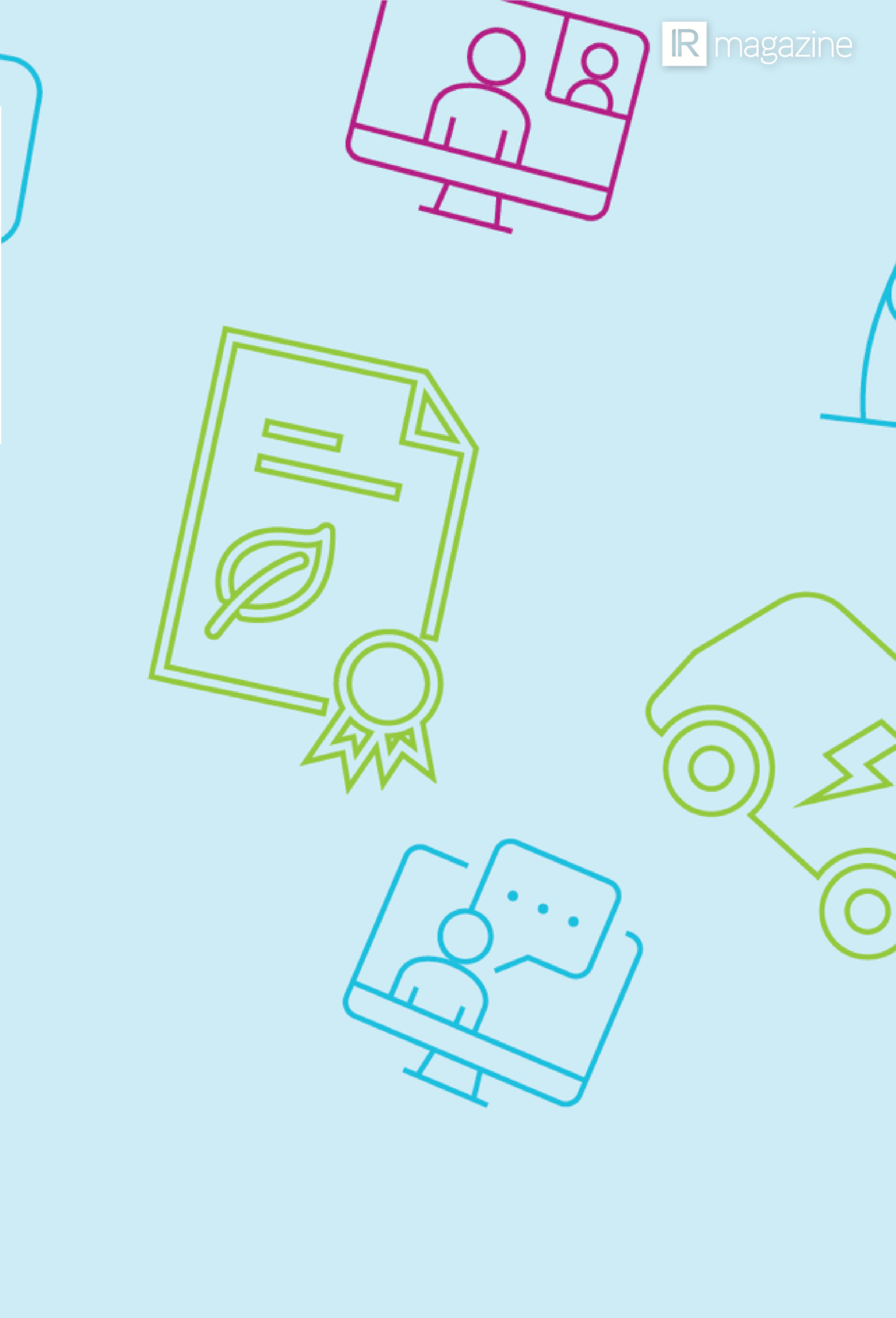
There is growing policy momentum in this area: the creation of the SEC's Climate and ESG Task Force in its division of enforcement, a stronger approach to enforcement on climate-related risks and an ongoing review of mandatory ESG disclosure all point to the regulator making fresh recommendations in this area before the end of this year.

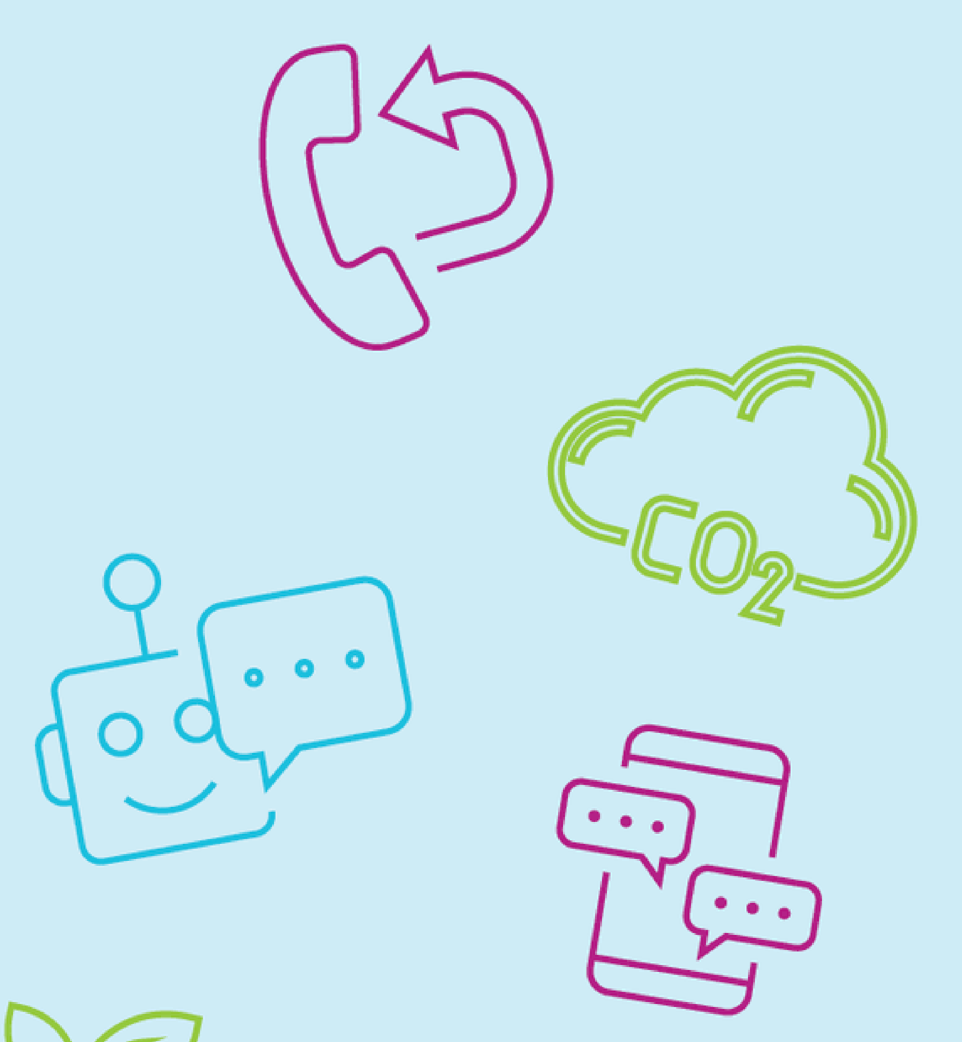
While there are no requirements relating to earnings, investors and analysts expect there to be consideration of ESG factors – not limited to climate, governance and workforce information – in what a company discloses.

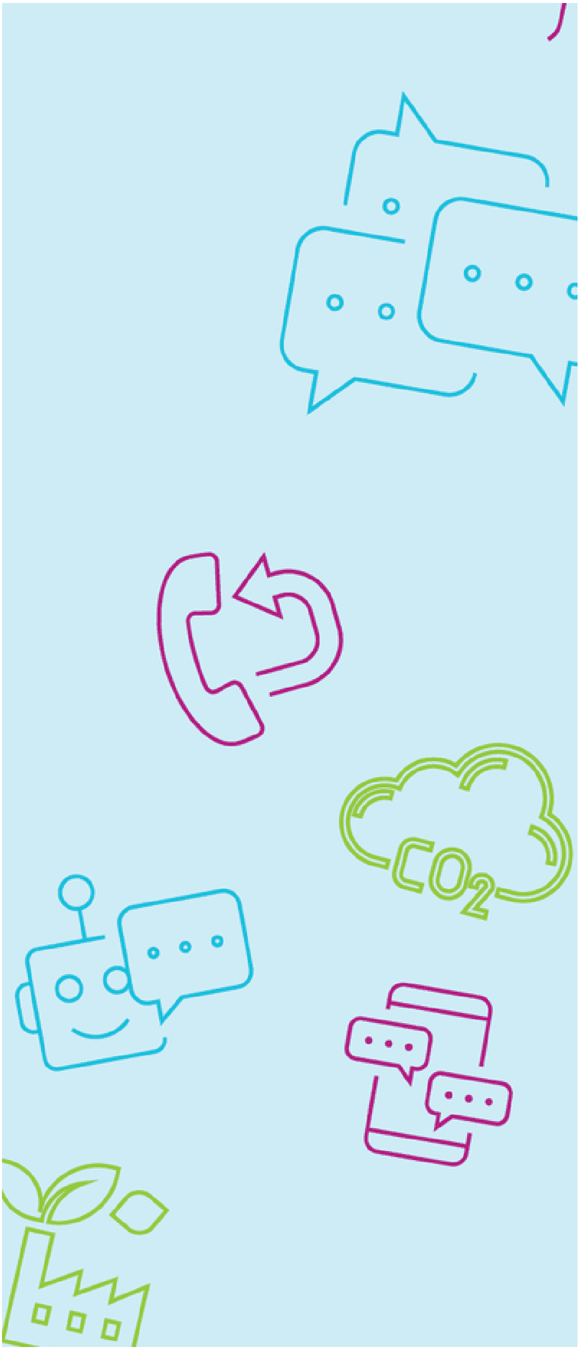
A big part of the puzzle is that the more ESG-related information that is published, the better the overall effect. The more companies can promote and amplify their stories, the better they will be perceived in the marketplace – not just by their investors, but also by ESG frameworks, other benchmarks, ratings agencies and the entire ecosystem.

How to do it

Where is your company on its ESG journey, where is it going and how are you measuring progress?







How to do it

Where is your company on its ESG journey, where is it going and how are you measuring progress?

It is first important to consider where your organization lies on its ESG disclosure journey. One way of framing it is to think about which 'ESG life stage' your organization may be at.

Nascent: These are firms that are just starting out with a relatively low profile in the ESG space. They are perhaps still considering the metrics, KPIs or frameworks to use for ESG disclosure and considering how to bring ESG talking points into their earnings call.

Key focus: ESG website as a distinct online portal to collect disclosures.

Familiar: These are companies that are comfortable with their place in the ESG ecosystem and working on being included in ESG frameworks. They are settling on the KPIs and frameworks they use to benchmark and measure performance, and thinking about how to make sure their ESG strategy follows through into earnings.

Think about which 'ESG life stage' your organization may be at

Key focus: Tying performance measures to ESG performance.

Mature: These are companies that have long been innovative ESG communicators and have long reported on such factors. They are definitely included in ESG frameworks and well covered by ESG ratings agencies. They regularly refine their approach to how they address ESG in earnings calls and fine-tune their strategy.

Key focus: Drilling down into specific issues and topics in granular detail with division heads and/or subject matter experts.

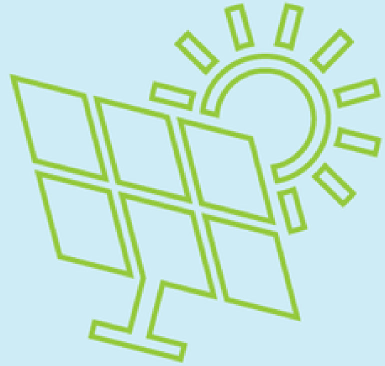
Case study:

Essential Utilities

Essential is a listed holding company for regulated utilities, providing water, wastewater and natural gas services across North America. Its ESG manager, John Catalano, has headed up a dedicated ESG function at the firm since July 2020 and describes it as at a ‘familiar’ stage in its journey.

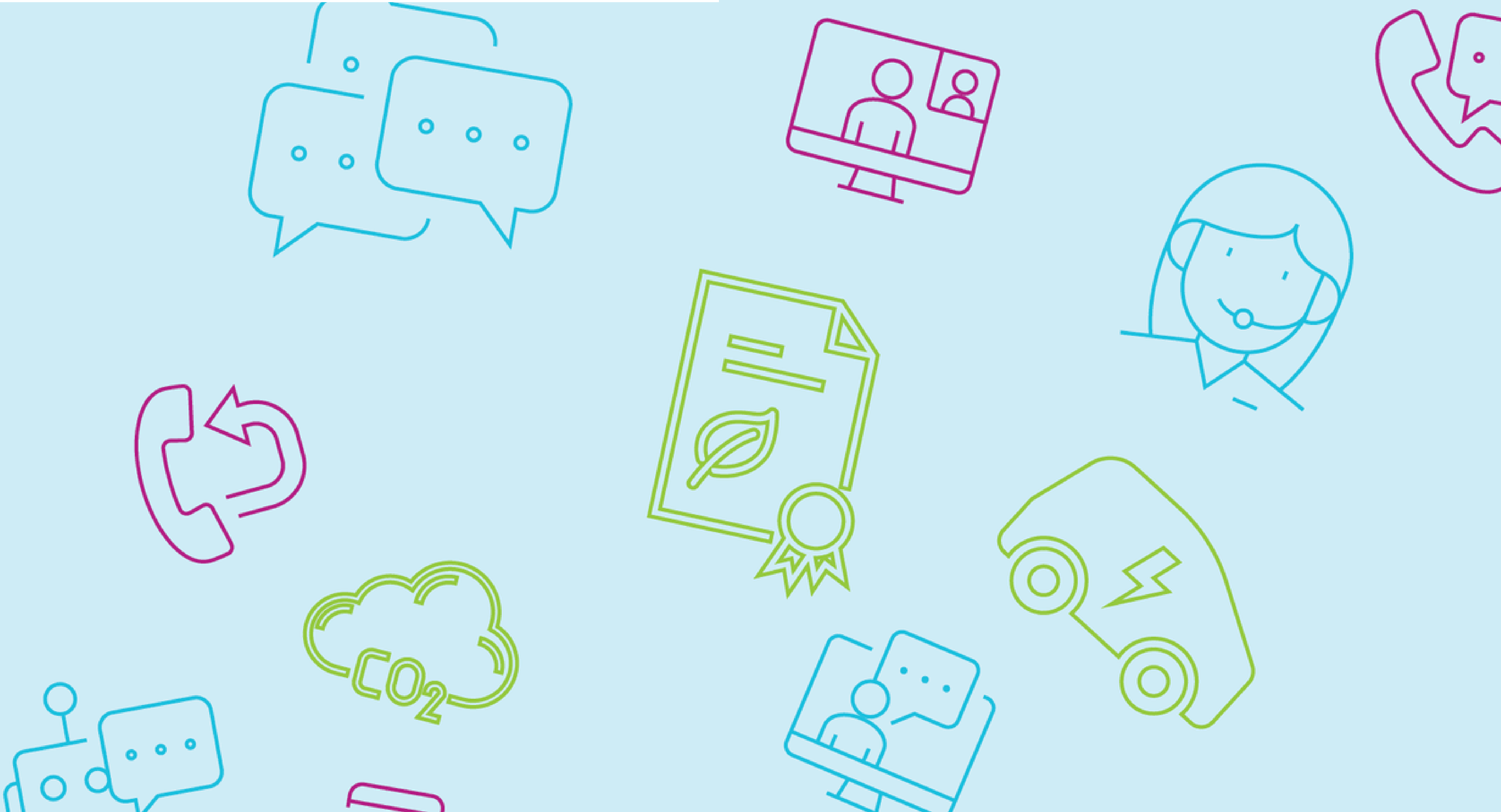
‘We feel really good about our overall ESG efforts under John’s leadership,’ says Brian Dingerdissen, Essential’s vice president and chief of staff for investor relations and communications.

‘We are at a really good place with our reporting and with how the ratings agencies see us today. Though we are still evolving as to how we share our ESG story in places other than our formal reporting, I feel as though we are ahead of the wave right now.’



Key features

Make value creation, measurable data and CEO buy-in some of your ESG cornerstones



Key features

Make value creation, measurable data and CEO buy-in some of your ESG cornerstones

Wherever a company is on its journey to fully implementing ESG talking points into its regular earnings updates, here are a few key aspects that are important to consider.

Prime your audience

If beginning this process as a nascent company – or refining your approach if familiar or mature – it can be worth sowing the seeds of your ESG content before fully launching it. Have the aim of building comfort and confidence with your investor base and senior management by weaving this content into existing disclosures.

And when it comes to the earnings call itself, consider embedding ESG-specific questions with your sell-side analysts to help propel your Q&A. If relevant, it may also be valuable to expand the scope of investors that are engaged in earnings-related discussions.

For example, electric car maker Tesla has opened up its Q&A platform to allow retail investors to submit questions, broadening the conversation each quarter.

Move from broad to specific

When it comes to earnings, a good starting point for nascent companies is to set out the firm's broad approach to sustainability and ESG, and why these

> “We’ve tried to touch on ESG directly or indirectly on each of our calls as we try to make sure it stays relevant to the investor community”

issues are key to value creation and/or cost-avoidance.

Familiar and mature companies should continue to identify key talking points that contain specific, measurable data to make sure it can be instantly understood by their audience. Linking talking points to existing frameworks, KPIs or data points that have been tracked for some years can help to give context.

Keep it regular

All four quarterly updates offer the opportunity to tackle your company's ESG performance in a different way. For nascent companies, the focus should be on providing regular updates on key financial measures driven by ESG performance rather than non-financial data.

For familiar companies, it can be good to identify one quarter as an opportunity to hold a deep dive into ESG performance before providing updates throughout the rest of the year. Remember: your CEO's comments are a good place to offer extra detail or context regarding corporate purpose or as a consideration of wider stakeholders.

Identify risk

Risks relating to each of the E, S and G pillars are crucial to your disclosures, but familiar and mature companies may consider including a run-down of the value at risk of not acting on a particular sustainability theme. Illustrating this with specific examples can be particularly effective. For instance, exploring the potential costs of not considering employee safety, particularly within a Covid-19 context, could be illuminating.

Reach out and expand

Whether starting out as a nascent firm or developing your approach as a familiar or even mature company, identifying these talking points is a great opportunity to promote cross-functional collaborations within your organization. Corporate sustainability teams are an obvious port of call, but developing thematic KPIs and metrics alongside a host of other internal teams can be a powerful illustration of progress with granular detail.

Case study:

Essential Utilities

'In general, we like to cover interesting, non-routine topics on most of our earnings calls,' says Brian Dingerdissen, Essential's vice president and chief of staff for investor relations and communications. 'In the last couple of years, we've tried to touch on ESG directly or indirectly on each of our calls as we try to make sure it stays relevant to the investor community.

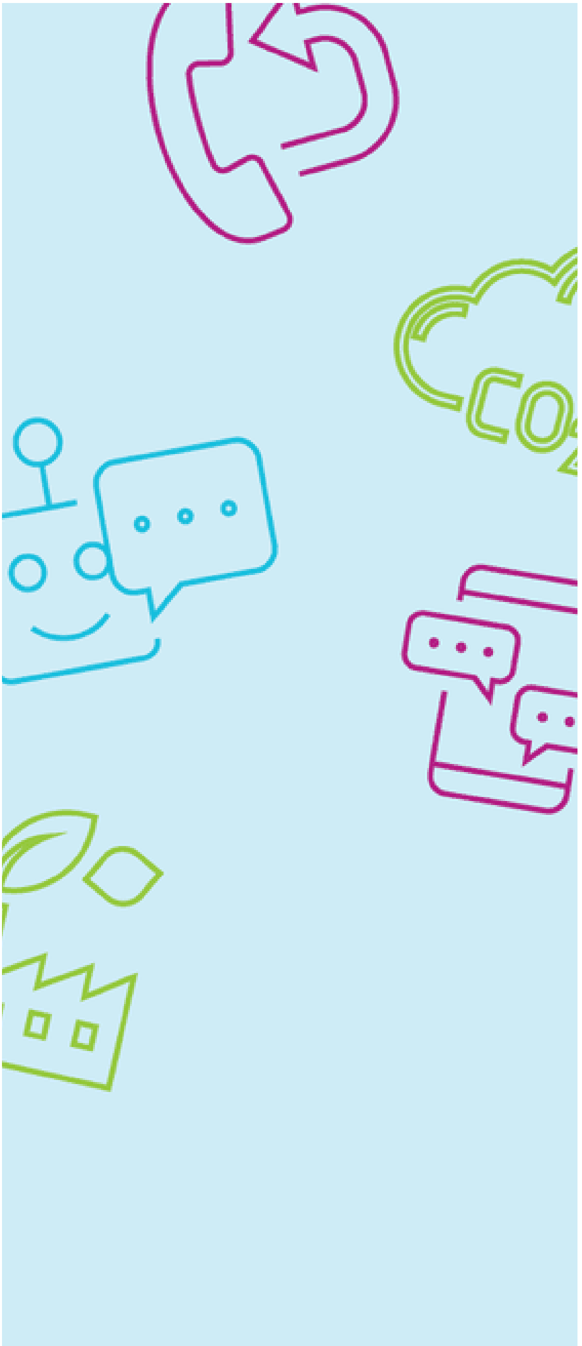
'We've found that some investors have a heavy focus on ESG and some do not, but we get a decent number of questions on it. We've spent a ton of time telling our ESG story with a formal microsite and our dedicated reporting, so we want to make sure we make our larger investor audience aware. We have a really good story to tell, I think, as a long-term company founded on solving environmental issues as a water utility and protecting the environment, and now bringing that expertise to a gas utility.

'We don't tend to get on the earnings call and say, *This is our ESG update*. Typically, we more hit on topics related to ESG issues. I could argue that anything could be related to ESG, though: we talk about the work our foundation does, our employee volunteer groups, the capital we're investing to reduce emissions, the reliability of our water and wastewater plants, climate change and the impact of storms. And then – maybe most importantly – we talk about the value of the services we provide as a utilities firm. We also spend a lot of time on our diversity efforts, whether it's with suppliers or employees, and we tie our leadership team's compensation to many of these aspects.

'We know not everyone's going to read the ESG microsite or the proxy or the annual report, so we want to keep these topics fresh in people's minds. It takes people hearing or reading things multiple times for them to truly absorb it. We also want to make sure investors are not relying exclusively on third-party ratings, which we have found can lag our performance. We want to make sure we are telling that story directly.'

Extra elements

Go next-level with post-call evaluations and analysis



Extra elements

Go next-level with post-call evaluations and analysis

Once you are under way with including ESG talking points in your earnings call, there are several extra considerations in order to refine your approach and ensure it will serve your company well through to a mature stage.

Stakeholder engagement

One of the key ways to engage different quadrants of your investment community is by actively encouraging questions or suggested talking points in advance (via the website or other communication channels). Even unanswered questions can provide valuable data points from your stakeholder audience.

Following up with post-earnings questionnaires is standard practice at many organizations, so consider adding specific ESG topics to this. And do not neglect one of your most important stakeholder groups: corporate management. Make sure you evaluate what it cares about and ensure your IR function gets credit for everything it is doing.

Evaluating channels

Earnings calls assumed several new forms during the Covid-19 pandemic, with online and video content taking center stage for many firms as in-person events became increasingly impossible. Leveraging ESG-centric video content is a great way to drive ‘one to many’ communication, and has extended uses both internally and externally to highlight and promote the different areas of an ESG program that can tally with established talking points.

Audiences consider video a top component when it comes to evaluating ESG audiences, and featuring your executives talking directly to them on these issues is a surefire way of ensuring connection.

Listening in

Monitoring what the markets are saying and thinking about your firm is a crucial part of the refinement process. Observing traditional media is important – picking up on analyst notes and written reports on how your company is perceived – but social media can be a more revealing snapshot about which issues are considered important.

In addition, a robust analysis of how other companies in your sector, industry and locale are including ESG topics in earnings can give you some crucial points of comparison or indications of what the market may be expecting of you.

Some questions you may try to answer include:

- Who's saying what?
- What are the hot topics for my company/sector/locale?
- How does my company compare itself with its peers? What are they putting out versus what we are putting out?
- Are we disclosing enough? Are we disclosing too much? Does this need to change quarter to quarter?

An intersectional approach

The pandemic has illustrated how many ESG issues intersect with others – for example, how supply-chain management topics can have far-ranging impacts on other E, S and G factors, such as how human capital, corporate governance or environmental risks are managed at suppliers and service providers.

Taking account of this and developing ways of reporting and highlighting those risks can provide an excellent opportunity to demonstrate transparency to stakeholders and a deep understanding of your supply chain's wider impacts.

Companies should increasingly be seen to follow such threads throughout their operations, and the outcomes felt throughout their wider ecosystem.

Managing management

Many companies choose to include their chief executive and CFO on earnings calls to highlight certain aspects of a company's performance, provide extra context or answer

> “If your earnings call just speaks to your financials, you're not going to have too much participation from the investor community”

questions from investors. For communication around ESG issues, the same is often a good starting point, but adding more specific management to communicate around a particular issue can be a great way to add focus.

'We try to have a guest member of management on our calls,' says Brian Dingerdissen of Essential Utilities. 'For example, we include our chief operating officer once or twice a year to give him some exposure to investors and provide a deeper dive into how a utility works, or a specific change in a regulatory environment related to compliance.

'I find that if your earnings call just speaks to your financials, you're not going to have too much participation from the investor community.'

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